

# Latam Daily Flash

## 25 July 2013 Economic Analysis

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*In Mexico, mid-July inflation surprised to the downside and leaves the door open for an interest rate cut in September. June employment data in Brazil confirmed the moderation in activity and supports our call for the end of the monetary tightening cycle in October. In line with our view, the traders' survey in Chile pointed to expectations of stable monetary policy in August. In Colombia, confidence suggests weak manufacturing in 2Q13 and anticipates a recovery in 3Q13. Today markets will focus on May economic activity in Mexico, expected to rebound.*

## Mexico - Inflation surprises sharply to the downside

Inflation surprised sharply to the downside in the first fortnight of July. Headline inflation came in well below expectations at 0.0% FoF (Consensus: 0.15%; BBVA Research: 0.23%). The surprise was due to a well below expectations core inflation print of 0.04% FoF (Consensus: 0.15%; BBVAe: 0.16%), which was mainly driven by very aggressive summer holiday sales of air tickets and by unexpected cuts in mobile phone tariffs, which together offset the seasonal increase in hotel and related tourist service prices. In annual terms, headline inflation decreased to 3.53%, the first print below 4% (i.e. within the central bank's target range) since March, while core inflation dropped to 2.57%, its historical low. Although today's inflation print is very much in line with Banxico's inflation scenario, the continuing improvement in the inflation outlook keeps the door open for a possible additional rate cut in September.

## Brazil - Labor markets continued to lose steam in June

Official data pointed to a gradual but continuous moderation in labor markets through June as well. Although the unemployment rate is still at historically low levels, it has been trending upwards lately. In June, it increased to 6.0%, from 5.8% in May (to 5.7% from 5.5% in seasonally adjusted terms). Average wages declined 0.2% MoM and expanded only 0.8% in YoY terms, which is another sign of moderation. In our view, this slowdown in the labor markets is consistent with a scenario of relatively low activity growth (we expect 2Q13e GDP to grow 0.6% QoQ, the same as in 1Q13 and 4Q12), and talks about the end of the current monetary tightening cycle (we expect to see an end to the Selic adjustment cycle in October, with a final 25bp hike, following a 50bp hike in August).

## Chile - Financial Traders Survey reveals stable monetary policy rate in August

As expected, the survey for the second half of July anticipates an inflation rate of 0.3% MoM for current month (BBVAe: 0.3% MoM). Results also show expectations of a stable monetary policy rate in August at 5%, in line with our view, but on a 6-month horizon the survey results anticipate a 50bp cut. Finally, traders forecast the exchange rate at CLP/USD 510 on a 3-month horizon, slightly stronger than in the previous survey.

## Colombia - Confidence suggests weak manufacturing in 2Q13 and anticipates a recovery in 3Q13

In June, industrial confidence fell to -5.1 (vs. -2.4 in May in a range between -100 and 100). Nevertheless, the three-month horizon production expectations continued their upward trend, anticipating a better manufacturing performance in 2H13. On the other hand, commercial traders made a positive assessment of the current economic situation, but were sceptical about sales data remaining positive in the next three months. Industry numbers are within expectations. Retail confidence indicators are less optimistic, anticipating sluggish household consumption, which could limit the expected recovery in 2H13e.

## What to watch today

### Mexico - IGAE (May, 09:00hrs NYT)

We expect the IGAE for May to replicate the upturn in industrial output after the weak figures for April. We expect a 0.4% MoM increase, equivalent to -0.2% in annual terms. This monthly expansion would partially offset the sharp decline observed in April (the second largest since January 2010 in monthly terms). This decline was driven by a major contraction in the industrial sector (-1.8% MoM) which was explained by the contraction in manufacturing and construction. Services also posted a negative monthly variation. However, both industrial production and retail sales rebounded in May which will show in the IGAE released today.

## Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
Tax Collections	22 Jul	Jun	86050M	--	85683M	87858M
FGV Consumer Confidence	23 Jul	Jul	--	--	108.3	112.9
FGV CPI IPC-S	23 Jul	2-Jul	-0.02%	--	-0.11	0.07%
Current Account - Monthly	23 Jul	Jun	-\$5200M	--	-\$3953M	-\$6420M
FIPE CPI - Weekly	25 Jul	2-Jul	0.05%	--	--	0.01%
Unemployment Rate	25 Jul	Jun	5.9%	6.00%	--	5.8%
FGV Construction Costs (MoM)	26 Jul	Jul	0.70%	--	--	1.96%
Outstanding Loans MoM%	26 Jul	Jun	--	--	--	1.5%
<b>Chile</b>						
Central Bank's Traders Survey	24 Jul	--	--	--	--	--
<b>Colombia</b>						
Overnight Lending Rate	26 Jul	2-Jul	3.25%	3.25%	--	3.25%
<b>Mexico</b>						
Retail Sales (INEGI)	22 Jul	May	1%	--	0.10%	2.5%
Bi-Weekly CPI	24 Jul	2-Jul	0.11%	--	0.00%	-0.05%
Global Economic Indicator IGAE	25 Jul	May	2.00%	--	--	4.55%
Trade Balance	26 Jul	Jun P	-533M	--	--	-469.9M
Central Bank Monetary Policy Minutes	26 Jul	--	--	--	--	--

## Most recent Latam reports

Date	Description
24-07-2013	<a href="#">Mexico Inflation Flash: July's biweekly inflation: Inflation Surprises to the Downside. Thanks to a Very Low Core Print</a>
18-07-2013	<a href="#">Brazil Flash: For the COPOM, the exchange rate depreciation is a "natural and expected" transition to normality, but entails risks</a>
15-07-2013	<a href="#">Mexico Real Estate Flash: Construction returns to negative terrain</a>
15-07-2013	<a href="#">Flash Peru: GDP slowed in May</a>
15-07-2013	<a href="#">Mexico Flash: Industrial production rebounded in May, partially offsetting the sharp decline in April. The trend remains of moderation.</a>
12-07-2013	<a href="#">Mexico Flash: In spite of a greater concern on domestic activity and a better inflation outlook, a rate cut seems to depend on a greater impairment of economic activity</a>
11-07-2013	<a href="#">Peru Flash: Central Bank somewhat more dovish</a>
11-07-2013	<a href="#">Chile Flash: CB kept the monetary policy rate at 5%, but explicitly delivered a dovish tone</a>
11-07-2013	<a href="#">Mexico Flash: Banxico: Fondo rate at 4.0%. A dovish tone is expected as domestic activity impairs</a>
11-07-2013	<a href="#">Flash Brazil: The monetary tightening continues, at an unchanged pace</a>

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